# 2007 Annual Report

Creating economic wealth and diversification through investment of immigrant investor capital in Saskatchewan

SASKATCHEWAN GOVERNMENT
GROWTH FUND

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## FUND PROFILE

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") is a government-administered venture capital fund pursuant to the Immigration Regulations, 1978 (Canada), as amended. It was formed in 1994 to enable immigrant investors to invest in businesses operating in Saskatchewan and facilitate the investors' qualification as Canadian permanent residents under the Immigrant Investor Program.

## FINANCIAL HIGHLIGHTS

- The Fund incurred a loss of $3.7 million in 2007 and has an accumulated deficit at December 31, 2007 of $2.0 million.
- The Fund incurred negative net revenue of $3.8 million for the year, reflecting a significant decrease in the fair value of investments.
- The principal amount repaid on Notes at maturity was $165,000, and all Notes have now matured. Additional payments will be made when cash becomes available from the liquidation of investments.

## MESSAGE TO INVESTORS

The priority of Saskatchewan Government Growth Fund III Ltd. in 2007 continued to be the liquidation of its remaining investments to provide funds for payments to Noteholders.

The Fund incurred a loss of $3.7 million (2006 – income of $176,000), reflecting a significant decrease in the fair value of investments. The Fund has an accumulated deficit at December 31, 2007 of $2.0 million, compared with retained earnings of $1.7 million at December 31, 2006.

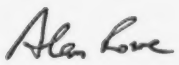
Payments to Noteholders on maturity of the Notes are established periodically based on forecasts of cash expected to be available from disposal of investments and scheduled maturities of Notes. This ensures that all investors are treated equally on the maturity of their Notes. In 2002, the amount paid at maturity was set at $150,000. In 2003, the payment at maturity was increased to $160,000 and in 2004, to $165,000.

The Fund has three remaining investments. The timing and amount of future payments on the Notes are dependent on the disposal of these three investments. Only one of these investments is likely to generate significant proceeds on disposal. It is an investment in Big Sky Farms Inc., a private company which is the third largest hog producer in Canada. At the time of writing the 2006 Annual Report, the market for such companies was improving and it was expected that the investment would be disposed of in late 2007. However, in the last half of 2007, the hog industry was seriously affected by a sharp drop in the market price of hogs, the strengthening of the Canadian dollar, which lowers the amount companies receive on exports to the United States, and record high feed prices in western Canada. The hog markets have continued to be volatile in early 2008. These factors have caused the reduction in fair value of the investment and the loss in the Fund in 2007. It is unlikely that there will be an opportunity to dispose of this investment until 2009 at the earliest.

In a volatile market, it is difficult to make reliable assumptions as to the possible proceeds and timing of sale of investments. However, based on the current outlook for the disposal of the remaining investments held by the Fund, it is unlikely that the Fund will be able to repay the full remaining principal amount of Note obligations to investors. The objective of the Fund is to dispose of the remaining investments in 2009.

As significant new developments occur, this information will be provided to the Noteholders.

**Roland Hardy**
Chair



**Alan M. Rowe**
President

April 4, 2008

## INVESTMENT PROFILES

*The following are profiles of investments held by SGGF III during 2007, including the principal amount invested at December 31, 2007, and a description of the companies' operations. The date of the initial investment in each company is noted in parentheses.*

**Big Sky Farms Inc. (January 1996)**
*$3,000,000 – 1,263,360 common shares – 11.8% ownership*

Big Sky Farms, headquartered in Humboldt, Saskatchewan, operates a number of farrow-to-finish hog operations in Saskatchewan and Manitoba. These operations are among the largest hog production facilities in Canada.

**Fairmount Energy Inc. (July 2004) (TSX:FMT)**
*35,740 common shares*

Fairmount Energy is an oil and natural gas exploration and development company. The Fund received its shares in the company in 2004 on reorganization of Star Biotech Inc. (now Star Bio Investments Inc.), a company in which the Fund invested in 1998.

**Star Bio Investments Inc. (January 1998)**
*$52,284 – common shares – 3.1% ownership*

Star Bio Investments Inc. is a successor company to Star Biotech Inc. Star Biotech was a Saskatoon-based biotechnology company which used advanced technologies to develop and produce high value-added, bio-engineered vaccines for animals and humans. In 2002, the Fund's debt investment was converted to shares and the company sold its assets for a combination of cash and equity and royalty interests in other companies. In 2004, the company reorganized and the Fund received common shares of Star Bio Investments Inc., which holds the equity and royalty interests, and of Fairmount Energy Inc. The Fund's recovery on this investment is dependent on Star Bio Investments selling its equity and royalty interests.

## Background

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") is an immigrant investor fund which operates in accordance with the regulations of the federal Immigrant Investor Program (the "IIP"). The Fund began commercial operations in 1994 when it accepted its first subscription deposits. The Fund is financed by subscriptions received from immigrant investors. The objective of the Fund is to invest the proceeds of subscriptions in eligible businesses in Saskatchewan for a five year period as required by the IIP. This allows the immigrant investor to satisfy the investment requirements of the IIP for a Canadian-resident visa.

## Obligations to investors

SGGF III's activities are financed by immigrant investors who have subscribed for unsecured, subordinated promissory notes ("Notes") offered through an Offering Memorandum. Interest at the rate of 2% is paid on the Notes only until maturity. Obligations under the Notes are subordinate to all other liabilities of the Fund and repayment is dependent on the proceeds on liquidation of investments and all other available liquidity in excess of other liabilities.

The Notes mature five years from the date of issue. The IIP requires that the maturity date of a Note be extended if, and for so long as, less than 70% of the amount of the Note is invested in the active business operations of eligible businesses in Saskatchewan.

SGGF III was closed to new subscription applications on July 31, 1997.

At December 31, 2007, obligations to investors totalled $9.3 million (2006 – $9.3 million), representing 109 Notes (2006 - 109 Notes) on which principal payments totalling $165,000 each have been paid to investors.

The Fund's cash flow projections indicated that timing differences existed between planned liquidations of investments and scheduled investor repayments as Notes became due. In order to treat all investors equally, the payment on Notes at maturity was initially set at $150,000. In 2003, the payment was increased to $160,000 and in 2004, the payment was increased to $165,000.The payment of any amount in addition to the initial payment at maturity is dependent on the liquidation of investments, many of which are in private companies as required by the IIP. These investments typically have more risk than other types of investments. Any forecast of when such investments will be liquidated reflects a best judgment based on current information, and involves a number of risks and uncertainties and other factors that may cause actual results to differ materially from the forecast. If the assumptions underlying current forecasts prove to be correct, payment of additional amounts may be possible in 2009; however, based on these forecasts, it is unlikely that the Fund will be able to repay the full principal amount of the Note obligations to investors. The cash flow forecast will be reviewed quarterly and available cash will be distributed to investors.

SGGF III continues to actively manage its remaining investments with a view to achieving for investors the best liquidation proceeds available in the prevailing circumstances.

### Investments

The investment policy of the Fund reflects the requirements imposed by both the IIP and the Offering Memorandum. To meet these requirements, the Fund has established a target initial investment allocation consisting of:

- a maximum of 50%, and a minimum of 30%, invested in small and medium-sized enterprises ("SMEs") in Saskatchewan;
- a maximum of 30%, and a minimum of 20%, invested in loans to support infrastructure projects of the Province of Saskatchewan, and its agencies, municipalities and similar institutions; and,
- the balance invested in cash or liquid debt securities.

As investments are divested over time, the actual portfolio mix changes. Investments in SMEs and loans to support infrastructure qualify as "eligible businesses" for purposes of the IIP.

The following table sets out the investments of the Fund by type at December 31 in each year:

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **No.** | **$ millions** | **%** | No. | $ millions | % |
| Other investments | | | | | | |
| Small and medium-sized enterprises | | | | | | |
| Equity investments | **3** | **3.1** | **91.2** | 3 | 3.1 | 88.6 |
| Total | **3** | **3.1** | **91.2** | 3 | 3.1 | 88.6 |
| Cash and publicly-traded and short-term investments | | **0.3** | **8.8** | | 0.4 | 11.4 |
| | | **3.4** | **100.0** | | 3.5 | 100.0 |
| Adjustment to fair value | | **3.9** | | | 7.8 | |
| Carrying value | | **7.3** | | | 11.3 | |

Note: 1. The total number of SME investments represents the total number of companies. In some cases, an investment in both debt and equity instruments of the same company may have been made.

Investment and other income realized in 2007 totalled $17,000, compared with $22,000 in 2006. A decrease of $3.8 million (2006 – increase of $189,000) in fair value of investments was recorded, and a gain on disposal of $2,000 (2006 – $122,000) was recorded. Net revenue in 2007 was negative $3.8 million, which included a significant decrease in the fair value of one investment in 2007, compared with $329,000 in 2006.

### Management

The Fund is managed by the Saskatchewan Government Growth Fund Management Corporation ("SGGF MC") under a contract which provides for a management fee not to exceed 3.0% of the net assets of the Fund. SGGF MC has contracted administration and investment advisory services from Crown Capital Partners Inc. ("CCPI"), a private, national investment advisor based in Regina, Saskatchewan, and has retained subadvisors to provide investment advisory services. CCPI is paid a monthly fee for its services and will receive a performance fee based on the retained earnings, if any, of the Fund after all investor obligations are repaid in full and all investments have been liquidated. The subadvisors are paid a performance fee based on the performance of investments managed by them.

Administration expense for the Fund totalled negative $87,000 in 2007, compared with $154,000 in 2006. Administration expense in 2007 included the reversal of an accrual of $214,000 (2006 – an accrual of $22,000) for performance fees based on current fair values of investments. The fees are payable only when investments have been liquidated. Administration expense represented negative 0.9% (2006 – 1.4%) of weighted average total assets.

### Results of operations

In 2007, the Fund incurred a loss of $3.7 million, compared with income of $176,000 in 2006. In 2007, the loss resulted from a decrease in the fair value of investments. Investment income on weighted average total assets, before losses on disposal and the adjustment to fair value, was 0.2% (2006 – 0.2%). Unrealized losses and realized gains on disposal, net, were negative 41.2% (2006 – realized gains on disposal and unrealized gains - 2.8%). Expenses were negative 0.9% (2006 – 1.4%).

At December 31, 2007, the Fund had an accumulated deficit of $2.0 million compared with retained earnings of $1.7 million at December 31, 2006.

### Outlook and risks and uncertainties

The priority of SGGF III is the management of its investment portfolio to maximize returns and to provide for liquidation of investments to satisfy the obligations to investors at maturity of their Notes. Additional investments in SMEs will be made only to maximize the value of existing SME investments.

The investment allocation of the Fund which is prescribed by the IIP and Offering Memorandum significantly influences the returns available to the Fund. Investments in SMEs, which initially can represent up to 50% of the Fund's investments, provide an opportunity for higher returns, but also carry a higher risk of losses than other investment types, and a greater challenge to achieving liquidity at the precise time that Notes mature. On the other hand, the balance of investments prescribed by the IIP, which consist of liquid securities and loans to finance infrastructure, are relatively low risk, but also provide low returns that reflect the lower risk exposure. The Fund has liquidated virtually all investments except for its remaining investments in SMEs.

The significant risks and uncertainties which affect the Fund relate to market risk, credit risk, interest rate risk, and liquidity risk. These risk factors are described in note 11 to the financial statements. The Fund manages these risks to the extent possible; however the factors may affect the ability of the Fund to repay its Notes at maturity. The Fund has no sources of funds to finance the repayment of its Notes other than the proceeds received on liquidation of its investments.

Dated as of April 4, 2008.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

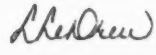
The President and fund manager of the Saskatchewan Government Growth Fund III Ltd. are responsible for management of the Fund. The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include amounts which are based on informed judgement and management estimates. Financial data presented elsewhere in this annual report is consistent with that in the financial statements.

Management's responsibility includes ensuring the integrity and objectivity of financial information. Management maintains an appropriate system of internal accounting and administrative controls, policies and procedures to provide reasonable assurance that all transactions are authorized, financial records are complete and accurate, and assets are safeguarded against loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board has established an Audit Committee to review the Fund's accounting policies and financial statements prior to their presentation to the Board for approval. The Audit Committee also reviews the internal controls of the Fund, and meets regularly with the auditors. The Board has reviewed and approved these financial statements.

Deloitte & Touche LLP, the Fund's independent auditors, have examined the financial statements of the Fund. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the Fund's financial position, results of operations and cash flows as shown in the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

**Alan M. Rowe, C.A.**
President



**Lori K. Le Drew, C.M.A.**
Controller, Crown Capital Partners Inc.

April 4, 2008

## AUDITORS' REPORT

To the Shareholder of Saskatchewan Government Growth Fund III Ltd.:

We have audited the statement of financial position of Saskatchewan Government Growth Fund III Ltd. as at December 31, 2007, and the statements of operations and comprehensive income (loss), retained earnings (deficit) and accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
April 1, 2008

## Saskatchewan Government Growth Fund III Ltd.
## Statement of Financial Position

| December 31 | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Cash | **$ 325,132** | $ 434,210 |
| Other investments (Note 5) | **7,000,786** | 10,829,008 |
| | **$ 7,325,918** | $ 11,263,218 |
| **Liabilities and Shareholder's Equity (Deficiency)** | | |
| Accounts payable and accrued liabilities (Note 6) | **$ 22,453** | $ 237,092 |
| Commissions payable (Note 7) | **18,500** | 18,500 |
| Subscription deposits (Note 8) | **25,010** | 25,010 |
| Obligations to investors (Note 9) | **9,265,000** | 9,265,000 |
| | **9,330,963** | 9,545,602 |
| Share capital (Note 10) | **2,000** | 2,000 |
| Retained earnings (deficit) and other accumulated comprehensive income | **(2,007,045)** | 1,715,616 |
| | **(2,005,045)** | 1,717,616 |
| | **$ 7,325,918** | $ 11,263,218 |

See accompanying notes to the financial statements.

On behalf of the Board:

**Roland Hardy**
Director

**Lloyd Boutilier**
Director

**Saskatchewan Government Growth Fund III Ltd.**
**Statement of Operations and Comprehensive Income (Loss)**

| Year ended December 31 | 2007 | 2006 |
|---|---|---|
| **Revenues** | | |
| Income from cash and publicly-traded and short-term investments | **$ 16,539** | $ 17,350 |
| Income from other investments | **-** | 4,400 |
| | **16,539** | 21,750 |
| Gains realized on disposal of other investments | **1,602** | 145,890 |
| Losses realized on disposal of other investments | **-** | (23,750) |
| Losses realized on disposal of publicly-traded and short-term investments | **-** | (3,529) |
| (Decrease) increase in fair value of investments | **(3,828,222)** | 188,913 |
| | **(3,826,620)** | 307,524 |
| Net revenue | **(3,810,081)** | 329,274 |
| **Expenses** | | |
| Administration (Note 12) | **(87,420)** | 153,606 |
| | **(87,420)** | 153,606 |
| **Net (loss) income for the year** | **(3,722,661)** | 175,668 |
| **Other comprehensive income** | **-** | - |
| **Comprehensive income (loss) for the year** | **$ (3,722,661)** | $ 175,668 |

See accompanying notes to the financial statements.

**Saskatchewan Government Growth Fund III Ltd.**
**Statement of Retained Earnings (Deficit) and Accumulated Other Comprehensive Income**

| Year ended December 31 | 2007 | 2006 |
|---|---|---|
| **Retained earnings, beginning of year** | **$ 1,715,616** | $ 1,539,948 |
| Net (loss) income for the year | **(3,722,661)** | 175,668 |
| **Retained earnings (deficit), end of year** | **(2,007,045)** | 1,715,616 |
| **Accumulated other comprehensive income, beginning of year** | - | - |
| Cumulative effect of adopting new accounting policy | - | - |
| Other comprehensive income for the year | - | - |
| **Accumulated other comprehensive income, end of year** | - | - |
| **Total retained earnings (deficit) and accumulated other comprehensive income** | **$ (2,007,045)** | $ 1,715,616 |

See accompanying notes to the financial statements.

**Saskatchewan Government Growth Fund III Ltd.**
**Statement of Cash Flows**

| Year ended December 31 | 2007 | 2006 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net (loss) income for the year | **$ (3,722,661)** | $ 175,668 |
| Items not affecting cash: | | |
| Net gains realized on disposal of other investments | **(1,602)** | (122,140) |
| Losses realized on disposal of publicly-traded and short-term investments | **-** | 3,529 |
| Decrease (increase) in fair value of investments | **3,828,222** | (188,913) |
| Amortization of premium on bonds | **-** | 1,365 |
| Net change in non-cash balances related to operations (Note 13) | **(214,639)** | 1,666 |
| Cash flows from operating activities | **(110,680)** | (128,825) |
| **Cash flows from investing activities** | | |
| Sale of publicly-traded and short-term investments | **-** | 301,350 |
| Disbursements on other investments | **(69)** | (21,357) |
| Repayments of other investments | **1,671** | 156,129 |
| Cash flows from investing activities | **1,602** | 436,122 |
| **Net (decrease) increase in cash** | **(109,078)** | 307,297 |
| **Cash, beginning of year** | **434,210** | 126,913 |
| **Cash, end of year** | **$ 325,132** | $ 434,210 |
| **Interest paid during the year** | **$ -** | $ - |

See accompanying notes to the financial statements.

**Saskatchewan Government Growth Fund III Ltd.**
**Notes to Financial Statements**
**December 31, 2007**

## 1. Status of the Corporation

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") was incorporated in October 1994 under *The Business Corporations Act* (Saskatchewan) and has been accepted as a government administered venture capital fund under the federal government's Immigrant Investor Program ("IIP"). Under this program, the Fund was established to raise $35,000,000 through a note offering. Each note is a 2% unsecured, subordinated debt instrument with a principal amount of $250,000, repayable in five years provided that 70% of the proceeds are invested in eligible businesses ("Notes") throughout the five year period. The Fund commenced operations in 1994. The marketing period for the Fund ended on July 31, 1997.

The Confidential Offering Memorandum ("Memorandum") and the IIP prescribe various conditions which qualify an investment as an eligible business, including a requirement that the business be Saskatchewan based and have assets, including assets of associated companies, of less than $35 million.

The Government of Canada and the Government of the Province of Saskatchewan offer no guarantees or assurances on the financial performance of the Fund or of a return of an investor's original investment. Neither government will be liable for any loss or damages suffered by an investor as a result of an investment in the Notes.

As described above, the Fund's purpose is to issue the Notes and make investments in accordance with the IIP. When the Notes mature, the Fund divests its investments, in due course, as appropriate opportunities arise. The investments are the Fund's only source of revenue. The Fund's activities will cease when all investments have been divested. The proceeds will be applied to the obligations under the Notes, with residual resources, if any, being distributed to the shareholder.

## 2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered significant:

*Financial instruments*

All financial instruments are classified as one of: (a) held-to-maturity; (b) loans and receivables; (c) held-for-trading; (d) available-for-sale; or (e) other liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in comprehensive income. Accumulated other comprehensive income is reported as a separate component of shareholder's equity. Embedded derivatives are accounted for as separate financial instruments and classified in accordance with the above-noted classifications. Investment companies are exempt from these accounting policies with respect to investments and are

**Saskatchewan Government Growth Fund III Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2007**

permitted under Accounting Guideline 18 of the Canadian Institute of Chartered Accountants ("CICA") to measure and report investments at fair value.

The Fund has designated its cash as held-for-trading, which is measured at fair value. Accounts payable and other liabilities, including obligations to investors, are classified as other financial liabilities which are measured at amortized cost. The Fund has no embedded derivatives that need to be separately valued. Investments are measured and reported at their fair value.

*Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed quarterly and adjustments are reported in the Statement of Operations and Comprehensive Income (Loss) in the period in which they become known. The primary measurement uncertainty which may affect the reported amounts relates to the determination of fair values of other investments as described in the following pages.

*Revenue recognition*

Income from debt investments ("loans") is recognized as earned except if the investment is impaired. A loan is considered to be impaired if, as a result of deterioration in credit quality, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is usually assumed to be impaired. Other factors that are considered in determining whether a loan is impaired are the overall credit quality of the borrower and the fair value of the underlying security. When a loan becomes impaired, recognition of interest income ceases. Income from equity investments is recognized when received.

The change in fair value of other investments during the year is included in the Statement of Operations and Comprehensive Income (Loss). Fair values for other debt investments are determined by calculating the present value of the remaining payments under the loans. The discount rate used is based on the expected return at the date of the financial statements for a loan to an investee with similar risk characteristics. The discount rate is comprised of a base risk-free rate based on a Government of Canada bond with equivalent duration, a credit risk premium based on publicly-traded debt with a BBB credit rating, and an additional credit risk and liquidity premium based on the circumstances of the specific investee.

Fair values for other equity investments are determined by management on the basis of the expected realizable value of the investments as at the date of the financial statements if they were disposed of in an orderly manner over a reasonable period of time, discounted at a discount rate which is appropriate at the date of the financial statements to investments in similar companies. There is no active secondary market for many investments which are not

**Saskatchewan Government Growth Fund III Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2007**

publicly-traded, and there is considerable uncertainty and a potentially broad range of outcomes with respect to the future cash flows from these investments. Valuations of such investments are subject to a number of assumptions and uncertainties that may cause actual values realized on disposal to differ materially from the fair value estimated at any particular time.

*Future accounting policy changes*

In March, 2007 the Accounting Standards Board (AcSB) issued three new Canadian Institute of Chartered Accountants (CICA) handbook sections which expand the disclosure requirements on financial instruments: Section 3862, "Financial Instruments – Disclosures", Section 3863, "Financial Instruments – Presentation" and Section 1535, "Capital Disclosures". Sections 3862 and 3863 replace Section 3861, "Financial Instruments – Presentation and Disclosure". The Fund will adopt these new sections effective January 1, 2008, and is currently assessing the impact.

**3. Changes in accounting policies**

*Accounting changes*

Effective January 1, 2007, the Fund adopted the accounting standard Accounting Changes contained in CICA Handbook Section 1506 in accordance with the transitional provisions of the section. The new standard allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and requires new disclosures in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 had no material impact on the financial statements.

*Financial instruments*

The CICA issued several new accounting standards that have been adopted by the Fund effective January 1, 2007 on a retroactive basis without restatement of prior years. These standards are CICA Handbook Sections 3855, "Financial Instruments - Recognition and Measurement" and 3861 – "Financial Instruments - Presentation and Disclosure". These standards provide guidance on recognizing financial instruments and non-financial derivatives on the balance sheet. The standards also specify how financial instrument gains and losses are presented. All contracts must be reviewed for embedded derivatives which must be reported in their separate components. These standards are set out in note 2. This change in accounting policy had no impact on the Fund's financial statements at the time of adoption.

*Comprehensive income*

On January 1, 2007, the Fund adopted CICA Handbook Sections 1530, "Comprehensive Income" and 3251, "Equity". These Sections establish standards for reporting and display of comprehensive income. The Fund does not have any items that require separate recognition outside of net income, and, as a result, the adoption of this Section had no impact on the Fund's financial statements.

**Saskatchewan Government Growth Fund III Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2007**

## 4. Provisions of the IIP

*Minimum holding period and maturity of the Notes*

A Note is issued to evidence receipt of the full subscription amount on the date that at least 70% of the subscription amount has been invested in eligible businesses. Each Note is scheduled to mature five years from such date, provided the Fund maintains at least 70% of the Note continuously invested in the active business operations of eligible businesses for five years following the issuance date. The IIP contains provisions which require that the maturity date of a Note be extended if, and for such period that, a minimum of 70% of the Note amount ceases to be invested in the active business operations of eligible businesses.

## 5. Other investments

| | **2007** | 2006 |
|---|---|---|
| Equity instruments | **$ 3,052,284** | $ 3,052,284 |
| Adjustment to fair value | **3,948,502** | 7,776,724 |
| Carrying value | **$ 7,000,786** | $10,829,008 |

During 2006, $23,750 of investments and costs were written off.

During the year, investments changed as follows:

| | **2007** | 2006 |
|---|---|---|
| Balance, beginning of year | **$10,829,008** | $10,655,848 |
| New investments | **-** | 21,357 |
| Book value of divestments | **-** | (10,239) |
| Investments and costs written off | **-** | (23,750) |
| Net change in fair value | **(3,828,222)** | 185,792 |
| Balance, end of year | **$ 7,000,786** | $10,829,008 |

## 6. Accounts payable and accrued liabilities

Included in accrued liabilities in 2006 was a provision of $213,777 for future fees payable to the manager of SGGF III under the terms of a management services agreement. This amount was based on the retained earnings of SGGF III and payable to the manager only upon liquidation of all investments and repayment of all Notes.

**Saskatchewan Government Growth Fund III Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2007**

### 7. Commission payable

According to the terms of a marketing agreement entered into by the Fund, a commission is payable to the independent marketing agent selling the Note upon issuance of the investor's immigrant visa.

### 8. Subscription deposits

Subscription deposits represent partial deposits on Notes received prior to 1997 which have not yet been refunded to investors. The Fund was closed to deposits in 1997 and investors who have made partial subscriptions have no right to complete their subscription.

### 9. Obligations to investors

Obligations to investors represent the Notes issued to investors of the Fund. The Notes help to satisfy a portion of investors' visa requirements under the IIP. Interest to the maturity date of Notes is accrued at an annual rate of 2% from the date of Note issuance and is paid annually on December 31 until maturity and at maturity. The obligation at December 31 is:

| | **2007** | 2006 |
|---|---|---|
| 109 Notes | **$ 9,265,000** | $ 9,265,000 |

All Notes have matured. The obligation is comprised of 109 unsecured subordinated Notes with a remaining principal balance of $85,000.

Obligations under the Notes are subordinate to all other liabilities of the Fund and repayment is dependent on the proceeds on liquidation of investments and other available liquidity in excess of other liabilities. The Notes are irrevocable, except in the case that a visa is denied.

As a result of differences in the timing of proceeds from investments and scheduled maturities of Notes, the Fund set repayments on each Note at its maturity, beginning in January 2002, at $150,000. In 2003, this amount was increased to $160,000 with a further increase to $165,000 in 2004. Based on the current outlook for the disposal of the remaining investments held by the Fund, it is unlikely that the Fund will be able to repay the full remaining principal amount of Note obligations to investors.

### 10. Share capital

The authorized common share capital of the Fund at December 31 is:

Class A common shares – an unlimited number of voting common shares. Holders of these shares are not entitled to receive dividends.

**Saskatchewan Government Growth Fund III Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2007**

Class B common shares – an unlimited number of voting common shares. Holders of these common shares are entitled to receive dividends.

The issued common share capital at December 31 is:

| | 2007 | 2006 |
|---|---|---|
| 2,000 Class A common shares | **$ 2,000** | $ 2,000 |

**11. Risk management**

The Fund's primary business was the raising of capital from immigrant investors and placing these funds in new and expanding Saskatchewan businesses. This investment activity entails exposure to market risk, credit risk, interest rate risk, and liquidity risk. These risk factors may impact upon the Fund's ability to repay its Notes at maturity.

*Market risk*

Market risk is the risk that the fair value of an investment may be affected by the ability of an investee company to profitably distribute its products. Some of the companies in which the Fund invests are dependent upon a single product or industry. The Fund manages this risk through careful due diligence prior to committing funds to the investment and by diversifying its investments across various industry sectors.

*Credit risk*

Credit risk is the risk that an investee will fail to perform its obligations. Concentration of credit exposure may arise given that the Fund restricts its investments to businesses operating in Saskatchewan and therefore all investments are subject to a similar general economic environment. In addition, changes in commodity prices and foreign currency exchange rates may significantly affect the financial position of some investees. The Fund conducts thorough due diligence prior to committing to an investment and actively monitors the financial health of its investees on an on-going basis.

*Interest rate risk*

Interest rate risk is the risk that the Fund's earnings will be affected by fluctuations in interest rates. The Fund manages this risk through carefully monitoring and matching the duration of its investments with the duration of its obligations to investors.

*Liquidity risk*

Liquidity risk is the risk that the Fund will encounter difficulty in liquidating its investments at the time it is required to repay its Notes. Due to the nature of some of the Fund's investments, the timing of cash flows from its investments may not exactly match the payments owing under the Fund's Notes. The Fund carefully monitors the duration of its investments.

**Saskatchewan Government Growth Fund III Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2007**

However, timing differences may require the Fund to reduce or delay the payments owing on Notes at maturity.

*Fair value – obligations to investors*

No secondary market for the Notes exists. Due to the unique features associated with the Notes, the calculation of a fair value with appropriate reliability is impractical. The risk factors that affect the fair value of investments, as described above, also affect the fair value of obligations to investors. Repayment of these obligations at maturity is dependent upon the value and liquidity of investments at that time.

## 12. Administration

Under the terms of a management agreement between the Fund and Saskatchewan Government Growth Fund Management Corporation ("SGGF Management Corporation"), SGGF Management Corporation administers the assets of the Fund with the assistance of a manager that performs fund administration and investment management together with several investment subadvisors. SGGF Management Corporation does not guarantee the financial performance of the Fund. Services provided to the Fund are charged on a fee for service basis together with a performance-based component which is payable only at such time that all obligations to investors have been repaid. The costs billed to the Fund by SGGF Management Corporation are as follows:

| | 2007 | 2006 |
|---|---|---|
| Manager's fees | $ 103,572 | $ 105,811 |
| General administration | 2,071 | 4,273 |
| Directors' fees and expenses | 7,863 | 11,192 |
| Legal and professional | 12,851 | 10,440 |
| | $ 126,357 | $ 131,716 |
| Change in provision for manager's profit share | (213,777) | 21,890 |
| | $ (87,420) | $ 153,606 |

## 13. Net change in non-cash balances related to operations

| | 2007 | 2006 |
|---|---|---|
| Accounts receivable and accrued income | $ - | $ 4,512 |
| Accounts payable and accrued liabilities | (214,639) | (2,846) |
| | $ (214,639) | $ 1,666 |

**Saskatchewan Government Growth Fund III Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2007**

### 14. Income taxes

A provincial Crown corporation, SGGF Management Corporation, owns all of the issued shares of the Fund. Therefore, the Fund is exempt from income taxes.

### 15. Related party transactions

Included in these financial statements are amounts resulting from transactions with SGGF Management Corporation pursuant to a management agreement referred to in note 12. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms. Total fees charged to the Fund by SGGF Management Corporation amounted to $126,357 (2006 - $131,716). Total fees payable to SGGF Management Corporation at December 31, 2007, and included in the above, are $5,681 (2006 - $6,542).

### 16. Contingencies

The Fund indemnifies contracted parties in connection with services provided. From time to time the Fund or such parties may be defendants in litigation. It is not possible to predict the ultimate outcome of any outstanding litigation or estimate any costs which might result.

## FIVE YEAR FINANCIAL SUMMARY (UNAUDITED)

### Financial Position (thousands of dollars)

| December 31 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash | $ 325 | 434 | 127 | 323 | 942 |
| Publicly-traded and short-term investments | - | - | 303 | 310 | 497 |
| Other investments | 7,001 | 10,829 | 10,656 | 5,666 | 3,357 |
| Other assets | - | - | 4 | 68 | 3 |
| Total assets | $ 7,326 | 11,263 | 11,090 | 6,367 | 4,799 |
| Liabilities and Equity (Deficit) | | | | | |
| Obligations to investors | $ 9,290 | 9,290 | 9,290 | 9,455 | 10,315 |
| Other liabilities | 41 | 255 | 258 | 105 | 30 |
| Equity (deficit) | (2,005) | 1,718 | 1,542 | (3,193) | (5,546) |
| Total liabilities and equity (deficit) | $ 7,326 | 11,263 | 11,090 | 6,367 | 4,799 |

### Operating Results (thousands of dollars)

| Years ended December 31 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Investment income | $ - | 5 | 53 | 78 | 108 |
| Interest from cash and publicly-traded and short-term investments | 17 | 17 | 14 | 25 | 70 |
| Other income | - | - | 3 | 1 | - |
| | 17 | 22 | 70 | 104 | 178 |
| Gains (losses) realized on disposal of investments | 1 | 118 | (248) | (1) | - |
| Adjustment to fair value | (3,828) | 189 | 5,234 | 2,410 | |
| Provision for losses on investments | | | | | (136) |
| Net revenue | (3,810) | 329 | 5,056 | 2,513 | 42 |
| Expenses | | | | | |
| Administration | (87) | 153 | 321 | 154 | 223 |
| Financing | - | - | 1 | 6 | 45 |
| Total expenses | (87) | 153 | 322 | 160 | 268 |
| Net (loss) income | $(3,723) | 176 | 4,734 | 2,353 | (226) |

Note: Effective January 1, 2004, the Fund changed its accounting policy on a prospective basis to measure and report investments at their fair value. Effective January 1, 2006, amounts for prior periods were restated to reverse the accrual of interest on Notes after maturity.

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Regina, Saskatchewan

Lloyd Boutilier
Businessman
Regina, Saskatchewan

Darrel Cunningham
Farmer
Lintlaw, Saskatchewan

Harwood Davies
Businessman
Watrous, Saskatchewan

**Fund Manager**
Saskatchewan Government Growth Fund Management Corporation, which has retained Crown Capital Partners Inc. to provide management services

Crown Capital Partners Inc.
Alan M. Rowe, C.A., Partner responsible for SGGF
Christopher J. Anderson, C.F.A., Partner
Brent Hughes, C.F.A., Partner
Brian A. Johnson, C.F.A., Partner
Christopher A. Johnson, C.F.A., C.B.V., Managing Partner

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